

# INDUSTRY UPDATE

Biweekly Period Ending February 9, 2002

## Phoenix Metro Area

### **Manufacturing**

The Phoenix-area's high-tech sector took another hit in early February when **Motorola and Honeywell** announced **additional cutbacks**. (Although not the case, it seems that Motorola has made layoff announcements almost weekly during the last several months.) The Schaumburg, Ill.-based company said in its latest notice that **500 nonmanufacturing jobs** (e.g., finance, human resources, sales) would be **eliminated** from its **Valley semiconductor operations** as part of a world-wide cut of 9,400 positions. Motorola has cut more than 60,000 jobs worldwide in the past year, including several thousand in its Phoenix-area operations (see recent issues of *Industry Update* for more details). Honeywell, on the other hand, will **lay off** an **unspecified number of positions** at its Phoenix-based **engines and systems division**. About 1,500 positions in Honeywell's commercial aviation division in the northwest Valley were scheduled to be cut after an announcement last fall. Honeywell is the Valley's largest private employer, with 15,000 workers, while Motorola will employ about 10,000 locally after the latest cuts.

Honeywell, along with **several Valley companies**, however, **will be helped** if Congress adopts most of President Bush's **defense budget** requests. **Honeywell's aerospace division** should **receive \$5 billion** over the life of a planned new **Joint Strike Fighter aircraft**. The main contractor for the project will be Lockheed Martin Corp., but Honeywell will **produce several aircraft components** — oxygen systems, engine parts, and power-management systems. **Boeing Heli-**

**copters** in Mesa, which employs around 4,500, will also benefit from a five-year program to **build 269 Apache attack helicopters** for the U.S. military. And **hundreds of jobs** may be **added** at Gilbert-based **Spectrum-Astro**, which makes low-orbit satellites, as part of \$7.8 billion that Bush has asked for to work on the **space-based missile-defense system**. Other Valley companies that also should benefit from increased defense spending are **Talley Defense Systems** in Mesa and **General Dynamics Corp** in Scottsdale.

### **Construction**

A version of Sun City is coming to the east side of the Valley. **Del Web**, builder of numerous Sun City retirement communities across the country, is **planning a Sun City-type community in Chandler**, near Gilbert and Riggs roads. Smaller in scale, **Solera** will feature **1,200 homes** on 606 acres priced from \$120,000 to \$220,000. Phoenix-based Del Webb is a subsidiary of Michigan-based Pulte Homes Inc.

### **Finance, Insurance, and Real Estate**

In early February, **federal regulators shut down Phoenix-based NextBank**, whose core business was issuing credit cards over the Internet. The bank, which was owned by struggling online credit card pioneer NextCard Inc. of San Francisco, was put up for sale in October. And in late January, NextBank announced that it would **lay off 170 employees**.

A **home-loan telemarketing company** based in South Carolina has **opened a call center in Tempe** to service its clients. **HomeGold Financial Inc.**, which also has a mortgage loan-origination facility in Tempe, has two other call centers in its home state and numerous mortgage loan facilities around

the country. **No information** was available on the number of **employees** HomeGold **expected to hire** in Tempe.

Due to consolidation plans, **Bank One** will **close a business loan customer-service division in Mesa** March 1. As of late January, about one third of the center's 75 employees had found work in other divisions of Bank One in Arizona. The center's operations will be consolidated at operations in Lexington, Ky., and Fort Worth, Texas.

### **Trade**

An increased interest in NASCAR racing and the death of driving legend Dale Earnhardt a year ago has helped **boost the profitability of Phoenix-based Action Performance Cos.** Action Performance, which sells various types of racing memorabilia, has **marketing agreements** with 13 of the **top NASCAR and drag-racing drivers**, including the family of Dale Earnhardt, who died at the Daytona 500 in 2001. The company had 4<sup>th</sup> quarter net income of \$8 million versus a loss of \$73,000 in the comparable quarter a year earlier.

**Gilbert Town Square**, a 66-acre commercial and government development near Gilbert and Warner roads, has **signed 11 restaurants and retail stores** to leases. **Phase one** of the project, expected to be completed in 2005, will include a **14-screen movie theater (already open) boutiques, restaurants and retail shops**. Next to open will be a Mongolian Grill, Streamer's Café, and International House of Pancakes. **Developer Triple Five Group** also **plans several city government buildings**, a 250,000-square-foot **office complex**, and a **150-room hotel**.

A previously planned **merger between Phillips Petroleum Co. and Conoco could be blocked** by a competing **bid by Chevron-Texaco Corp.** for either Phillips or Conoco (see Dec. 1, 2001, *Industry Update*). It was expected that the **original planned merger would lead to layoffs at Phillips' marketing operation** in Tempe, which was obtained by Phillips (along with the Circle K convenience

store chain) when it merged with Tosco in 2001. Several hundred employees at the marketing division lost their jobs due to the merger between Phillips and Tosco.

A 178,000-square-foot **Lowe's Home Improvement store** will **anchor a 65-acre commercial and retail center at Interstate 10 and Dysart Road**, about 15 miles west of downtown Phoenix. **Palm Valley Cornerstone** will encompass 522,000 square feet of space, consisting of restaurants, banks, retail shops and offices, a convenience store/gas station, and a hotel. **SunCor Development Co.**, which expects the **Lowe's center to open in late 2002**, is considering building two other similar projects on Dysart Road over the next several years.

### **Services**

**Crowne Plaza Hotel** in downtown Phoenix has **threatened to file for bankruptcy**, if its lender forecloses on a \$19 million loan due to falling five months behind in payments. The 533-room hotel, which **employs 260 people**, has had financial problems (40 percent drop in business) since the Sept. 11<sup>th</sup> terrorist attacks. As an example, the United Auto Workers canceled an October convention that had booked 1,000 rooms at the hotel. The managing director of the Crowne Plaza, Steve Cohn, is trying to negotiate better terms on the loan.

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## **Tucson Metro Area**

### **Trade**

The **intersection of Irvington and Campbell** is already busy with a Fry's Kino Gateway Center that opened two years ago on the northeast corner, but more is still to come. **Four restaurants** and an additional **11,000 square-feet of retail space** are under construction and **will open this summer** as part of the **second phase** of the Fry's Kino center. Also, a **Walgreen's** drug store is **under construction** on the southwest corner. Plus, about **one-quarter mile to the north**, at the triangle intersection of Irvington, Campbell,

and Benson Highway, the **Monterey Water Co. plans** to build a **business park**, and **U.S. Homes** is **planning a 750-home subdivision** on nearby land.

### **Government**

The **University of Arizona** let go nearly **130 workers** as part of 4.5 percent **budget cuts** (\$16 million) mandated by the state Legislature to help balance the fiscal 2002-'03 budget. The cuts included 72 full-time workers under the provost's office and the vice president of business affairs. Fifty-six part-time professors also lost their jobs.

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### **Balance of State**

#### ***Transportation, Communications, and Public Utilities***

The **Arizona Corporation Commission** (ACC) unanimously voted to **deny a permit** for a 1,800-megawatt **power plant in Eloy** in late January. The commission cited a lack of need for the **Toltec Power Station** and environmental concerns for the nearby Picacho Peak State Park. It's the **second permit denied** by the commission for a power plant in the **last few months**. In November, the ACC said a plant near Wikieup, about 50 miles southeast of Kingman, also posed environmental concerns and was not needed (see Dec. 1, 2001, *Industry Update*). More than 20 power plants — primarily natural-gas fired — have been announced, are under construction, or recently opened in Arizona in the last several years.

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### **Statewide**

#### ***Transportation, Communications, and Public Utilities***

Born out of the death of Sunrise Airlines, Mesa based **Arizona Express Airlines began service** in late December, flying between Show Low and Phoenix four times a week. The 10-employee start-up air carrier **expects to expand service** between Show Low and

Phoenix to seven days a week, along with servicing other locations, when demand picks up. Page-based Sunrise, which flew to cities in Arizona, Utah, and Nevada, filed for bankruptcy last spring.

### **Trade**

**Two national retailers** experiencing financial problems are **closing stores** to regain profitability. **Kmart**, which operates 300 stores nationwide, is **shuttering four of its 36**

**Arizona locations** — three in Phoenix and one in Safford. Michigan-based Kmart filed for Chapter 11 bankruptcy protection in late January (also see Jan. 26, 2002, *Industry Update*). Meanwhile, to improve profitability **Toys "R" Us Inc.** announced in late January it will **close 64 stores** — 27 Toys "R" Us and 37 Kids "R Us outlets — and **cut 1,900 jobs**, or 3 percent of its workforce, across the country. **No information** is currently available on how the closings **might affect** the national retailer's **dozen or so Arizona stores**, located primarily in Tucson and Phoenix.

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## **INDUSTRY UPDATE**

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